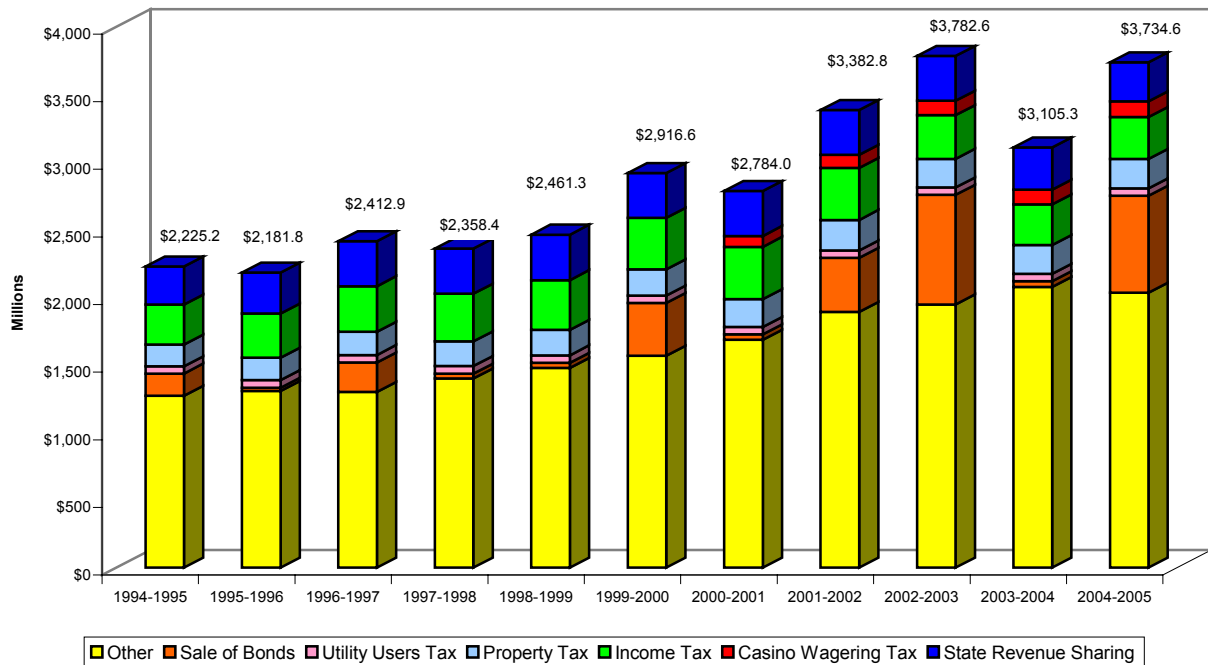


**CITY OF DETROIT  
MAJOR REVENUES  
FOR FISCAL YEAR 1994-1995 THROUGH FISCAL YEAR 2004-2005**

The following chart and schedule illustrate the total budgeted revenues over eleven years, from fiscal year 1994-1995 through 2004-2005. The analysis that follows includes a detailed breakdown of the revenues for property tax, income tax, utility users tax, state revenue sharing, casino wagering tax, and bond sales in the Mayor's Proposed Budget.



In Millions

Fiscal Year	Property Tax	Income Tax	Utility Users Tax	State Revenue Sharing	Casino Wagering Tax	Sale of Bonds	Other	Total
1994-1995	\$161.7	\$296.3	\$52.5	\$280.1	-	\$187.5	\$1,247.1	\$2,225.2
1995-1996	165.1	327.9	56.3	303.1	-	23.6	1,305.8	2,181.8
1996-1997	171.2	337.6	54.7	332.3	-	219.3	1,297.8	2,412.9
1997-1998	182.9	351.5	57.4	333.9	-	34.3	1,398.4	2,358.4
1998-1999	188.1	368.0	54.8	335.8	-	39.1	1,475.5	2,461.3
1999-2000	193.5	379.9	54.6	332.0	-	390.0	1,566.6	2,916.6
2000-2001	205.7	387.4	54.6	332.0	\$80.7	40.0	1,683.6	2,784.0
2001-2002	225.5	384.8	54.6	332.0	95.8	400.0	1,890.1	3,382.8
2002-2003	211.8	323.5	54.6	332.0	105.0	810.0	1,945.7	3,782.6
2003-2004	212.4	300.4	55.0	310.8	110.0	42.0	2,074.7	3,105.3
2004-2005	216.2	311.0	55.0	287.7	115.6	717.0	2,032.1	3,734.6

## MUNICIPAL INCOME TAX REVENUE

The following schedule shows budgeted and actual municipal income tax revenue for each fiscal year from 1996 to 2003. The schedule also shows budgeted revenue and projected revenue for the fiscal year ending June 30, 2004, and budgeted municipal income tax revenue as shown in the 2004-2005 Mayor's Proposed Budget.

In Millions						
Fiscal Year	Budgeted Revenue	Actual Revenue	Actual Over/(Under) Budget		Increase/ (Decrease) in Actual Revenue From Prior Year	
			Amount	Percentage	Amount	Percentage
1995-1996	\$ 327.9	\$ 335.8	\$ 7.9	2.4 %	\$ 23.1	7.4 %
1996-1997	337.6	332.9	(4.7)	(1.4)	(2.9)	(0.9)
1997-1998	351.5	361.6	10.1	2.9	28.7	8.6
1998-1999	368.0	370.4	2.4	0.7	8.8	2.4
1999-2000	379.9	378.3	(1.6)	(0.4)	7.9	2.1
2000-2001	387.4	341.0	(46.4)	(12.0)	(37.3)	(9.8)
2001-2002	384.8	323.5	(61.3)	(15.9)	(17.5)	(5.1)
2002-2003	323.5	310.9	(12.6)	(3.9)	(12.6)	(3.9)
2003-2004 (A)	300.4	301.9	1.5	0.5	(9.0)	(2.9)
2004-2005 (B)	311.0	N/A	N/A	N/A	N/A	N/A

- (A) The amount shown in the schedule as actual revenue for 2003-2004 is a Budget Department projection based on actual year-to-date municipal income tax revenue as of March 5, 2004, and an adjustment for weekly changes in collections over the last year.
- (B) The budgeted amount is the only figure available for fiscal year 2004-2005. The other amounts are designated N/A (Not Available) in the schedule. The budget assumes a 3% income tax growth rate.

### **Income Tax Rates for 2004-2005**

For the fiscal year 2004-2005, the income of residents and nonresidents will be taxed at the rate of 2.5%, and 1.25% respectively while the corporate tax rate will be 1.2%. The tax rates are the same as the prior year due to the suspension of Public Act 500 of 1998. The Act reduces City income tax rates by one-tenth of a percentage point per year for residents and one-twentieth of a percentage point for non-residents over a ten-year period, until the rates are 2.0% and 1.0% respectively<sup>1</sup>. For fiscal year 2002-2003, the City recorded a deficit of \$69.1 million. The City petitioned the State Administrative Board to suspend the income tax rate reduction because the City's financial condition met all of the fiscal and economic criteria specified in the Act. The criteria and the City's condition are as follows:

- a) *"Funds have been withdrawn from the City's budget stabilization fund for two or more consecutive city fiscal years or there is a balance of zero in the city's budget stabilization fund."* The Chief Financial Officer stated that funds had been withdrawn from the City's Budget Stabilization Fund for two or more fiscal years, and the fund balance would be reduced to zero.

<sup>1</sup> Before Public Act 500 of 1998 was enacted into law, the municipal income tax rates were 3% for residents, 1.5% for nonresidents, and 2% for corporations.

- b) *"The City's income tax revenue growth rate is 0.95% or less."* The Chief Financial Officer stated that the City's income tax growth rate was 0.937.
- c) *"The local tax base growth rate is 80% or less of the statewide tax base growth rate."* The Chief Financial Officer stated that the City's local tax base growth rate is 22.7% of the growth rate for the state.
- d) *"The City's unemployment rate is 10% or higher according to the most recent statistics available from the Michigan Jobs Commission."* The Chief Financial Officer stated the City's unemployment rate is 14.3%.

Attempts to quantify the effect of Detroit's income tax rate reduction in terms of foregone revenue have been made. An estimate provided by the Citizens Research Council (CRC) of Michigan indicates that each one-tenth of a percentage point reduction in the tax rate results in a reduction in revenue of about \$12 million, ignoring any growth in the tax base. The CRC estimate was developed using the assumption that the effects of the income tax rate reductions for both residents and non-residents should be included in the analysis since Public Act 500 of 1998 requires both rate reductions.

#### **Other Factors Influencing Municipal Income Tax Revenue**

In general, the national economy has shown signs of improvement; however, the manufacturing and auto-based sectors of the economy that Michigan is dependent on are lagging behind other sectors. Although the City's unemployment rate has improved slightly from 14.3% in February 2003 to 13.6% in February 2004 (latest data available), the City's unemployment rate is nearly double the State's unemployment rate of 7.3% and the nation's unemployment rate of 6.0%.

#### **Projected Municipal Income Tax Revenue for Fiscal Year Ending June 30, 2004**

Income tax revenue can be difficult to predict due to various economic factors such as, population changes over time, employment levels, and changes in taxpayer incomes that directly affect the City's income tax revenue.

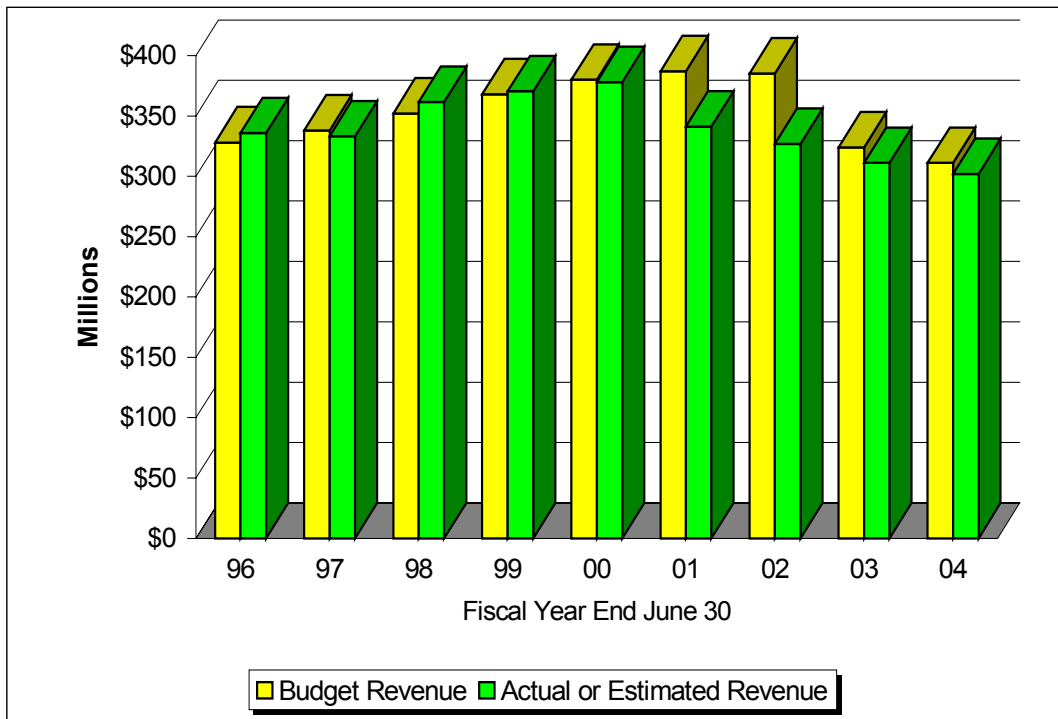
The Budget Department projects actual municipal income tax revenue of \$301.9 million for the fiscal year ending June 30, 2004, an amount that is \$1.5 million (or 0.5%) more than the budgeted amount. Based on our analysis, the projected amount appears reasonable.

The 2004-2005 Mayor's Proposed Budget includes municipal income tax revenue of \$311.0 million which does not include revenue collected by external services. This is \$10.6 million or 3.5% more than the \$300.4 million included in the FY 2003-2004 budget, and \$9.1 million or 3.0% more than the \$301.9 million projected for the same period. The Budget Department's projection incorporates a 3.0% income tax growth rate that was derived from the input of two local economists. Based on our analysis of the estimated collections for 2003-2004, the stable income tax rate, and the growth rate forecast by local economists, the projected income tax revenue amount of \$311.0 million for fiscal year 2004-2005 appears reasonable.

### Current Developments

The 2004-2005 Mayor's Proposed Budget includes revenues of \$8.0 million for the collection of prior year income taxes by an external tax collection services. In the 2003-2004 Mayor's Proposed Budget, \$10.7 million was included for delinquent income tax revenue, however, that projection was contingent on the approval of the collection service contract. As of March 2004, no income tax revenues have been collected by the service.

The chart below compares budgeted Municipal Income Tax revenue to the actual revenue for fiscal years 1995 through 2003 and the budgeted Municipal Income Tax revenue to the estimated revenue for fiscal year 2003-2004 in the 2004-2005 Mayor's Proposed Budget.



## STATE REVENUE SHARING

State Revenue Sharing is the process by which a portion of certain tax revenues imposed and collected by the State of Michigan are distributed to local units of government, including municipalities, as provided by State law.

Public Act (PA) 532 of 1998 changed the method for determining State Revenue Sharing payment amounts. In accordance with 1998 PA 532, the City of Detroit was to receive a total of \$333.9 million in State Revenue Sharing payments each year, from State fiscal year 1998-1999 to State fiscal year 2005-2006, and an annualized amount for the nine-month period from October 1, 2006 to June 30, 2007.

Concurrently enacted legislation, 1998 PA 500, required the City of Detroit to reduce income tax rates for residents, nonresidents, and corporations. However, there is no requirement for the State to maintain State Revenue Sharing payments at the \$333.9 million level to the City of Detroit in exchange for the reduction of the City of Detroit income tax rates.

Currently, the State shares a portion of sales tax with local governments. 1998 PA 532 specifies that for a State fiscal year (October 1 to September 30) in which the sales tax collections decrease from the sales tax collections for the preceding State fiscal year, the City will receive a proportionally reduced amount of revenue sharing payments. The following schedule shows the State's sales tax revenues for the State's fiscal years 1996-1997 through 2002-2003, as well as the State's estimates for fiscal years 2003-2004 and 2004-2005. The State does not anticipate that sales tax revenues will decline in the 2004-2005 fiscal year.

<u>Fiscal Year</u>	<u>Sales Tax Revenue (in millions)</u>	<u>Percent Change</u>
1996-1997	\$ 5,390	
1997-1998	5,617	4.2%
1998-1999	5,902	5.1%
1999-2000	6,278	6.4%
2000-2001	6,352	1.2%
2001-2002	6,440	1.4%
2002-2003	6,422	(0.3)%
2003-2004 (Estimate)	6,621	3.1%
2004-2005 (Estimate)	6,901	4.2%

In December 2002 and again in December 2003, executive orders were issued by the Governor, which slashed State Revenue Sharing payments across the board for the State's 2002-2003 and 2003-2004 fiscal years. Detroit's share of the reductions over the two-year period and the expected decrease included in the Governor's Executive Budget for next year total \$46.2 million.

The Governor's 2005 Executive Budget recommends State Revenue Sharing payments to Detroit in the amount of \$287.7 million, a \$24.8 million reduction from the \$312.5 million in fiscal year 2003-2004. The total payment of \$287.7 million for State Revenue Sharing includes a portion determined by the State Constitution (constitutional); and a portion determined by the Governor and the state legislature (statutory). The constitutional portion of State Revenue Sharing payments for 2004-2005 is based on the 2000 City of Detroit census figure adjusted for the deduction of 50 percent of the institutional population (mostly prisoners) as required in the Revenue Sharing Act.

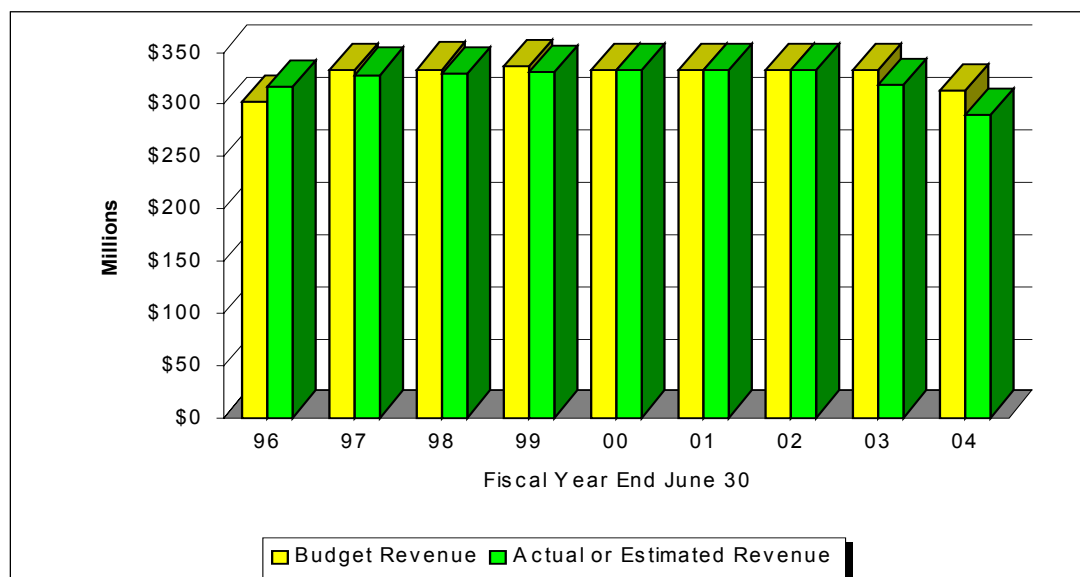
The State Revenue Sharing payments included in the 2004-2005 Mayor's Proposed Budget is compared to the 2003-2004 Budget in the following schedule:

	In Millions		
	2004-2005 Mayor's Proposed Budget	2003-2004 Budget	Increase (Decrease)
State Revenue Sharing:			
State Sales Tax – Constitutional Portion	\$ 63.2	\$ 64.0	\$ (0.8)
State Sales Tax – Statutory Portion	222.8	246.7	(23.9)
Total State Revenue Sharing, City Portion	\$ 286.0	\$ 310.7	\$ (24.7)
Detroit Public Library and DDA	1.7	1.8	(0.1)
Total State Revenue Sharing	<u>\$ 287.7</u>	<u>\$ 312.5</u>	<u>\$ (24.8)</u>

State Revenue Sharing revenues contained in the Mayor's 2004-2005 Proposed Budget are \$24.8 million less than the amount budgeted for 2003-2004. The 2003-2004 budget above has not been adjusted for the \$22.8 million reduction to the \$312.5 million made by the state legislature in December 2003. The decrease in both the constitutional and statutory portions is due to current and pending State Revenue Sharing payment reductions.

1998 PA 532 also provides that the treasurer of any city, village, township, or county who collects money for an authority that levies property taxes shall pay an eligible authority its share of state revenue. Therefore, the City is required to pay \$1.7 million to the Detroit Public Library and \$60,323 to the Downtown Development Authority (DDA) from the \$287.7 million in State Revenue Sharing for the 2004-2005 State fiscal year. These amounts have decreased from the previous year, proportionate to the overall decrease in State Revenue Sharing payments to the City.

The following chart compares budgeted State Revenue Sharing to actual State Revenue Sharing for fiscal years 1995-1996 to 2002-2003, and the budgeted State Revenue Sharing to the estimated State Revenue Sharing for 2003-2004 in the Mayor's Proposed Budget.



The following schedule compares budgeted State Revenue Sharing to actual State Revenue Sharing beginning with the 1995-1996 fiscal year:

In Millions				
<u>Year</u>	<u>Budgeted Revenue</u>	<u>Actual Revenue</u>	<u>Actual Over/ (Under) Budget</u>	<u>Percent Over/ (Under) Budget</u>
1995-1996	\$303.0	\$316.1	\$13.1	4.3 %
1996-1997	332.3	328.5	(3.8)	(1.1)
1997-1998	333.9	330.1	(3.8)	(1.1)
1998-1999	335.8	332.0	(3.8)	(1.1)
1999-2000	332.7	332.7	0.0	0.0
2000-2001	332.7	333.3	0.6	0.2
2001-2002	332.7	333.8	1.1	0.3
2002-2003	332.7	319.1	13.6	(4.1)
2003-2004	312.5	289.7 (A)	-	-
2004-2005	287.7	N/A	N/A	N/A

(A) For 2003-2004, projected revenues are shown in Chart 6, City of Detroit-General Fund Percent Change in Major Revenue Sources, of the Mayor's 2004-2005 Budget Message.

N/A For 2004-2005, the actual revenue amount, variance, and related percentage are not yet available.

In our opinion, the amount estimated in the City's 2004-2005 budget for State Revenue Sharing is unlikely to be received.

The Governor's Executive budget has not been enacted and can still be changed. State Revenue Sharing was previously considered a stable revenue source, but as has been shown in the preceding two years, Detroit's State Revenue Sharing amount is not "frozen," even when a budget has been enacted. An economist at the State of Michigan House Fiscal Agency believes that there is the possibility of additional cuts in 2004-2005 to State Revenue Sharing. The House Fiscal Agency indicates the additional cuts could be as high as 20 percent. This would be a decrease of as much as \$57.5 million. A cut of this magnitude would decrease the City of Detroit's State Revenue Sharing payment to \$230.2 million, which is over \$100 million less than \$333.9, where Detroit was "frozen" just two years ago.

Since December 2002, when the first cuts were enacted, the dollar amount all Michigan cities are receiving from the state through revenue sharing has dropped. However, one thing that has not changed significantly is the percentage of the state's total revenue sharing dollars the City receives. In fiscal year 2001-2002, Detroit received 22.01% of the state's total revenue sharing dollars. In 2003-2004 it is estimated that Detroit will receive 22.03% of the state's total revenue sharing dollars.

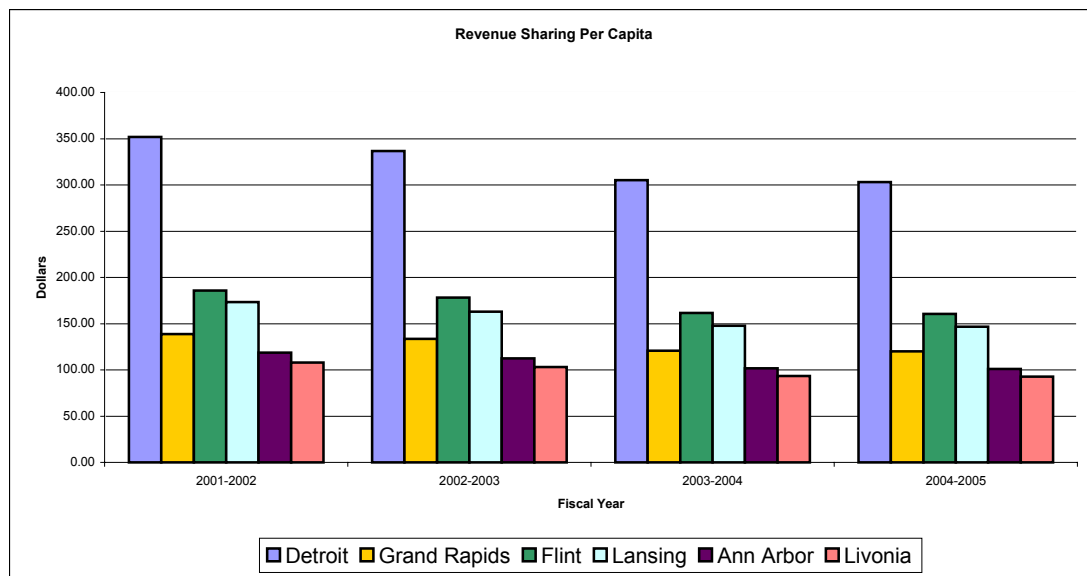
The table below shows the percentage of total revenue sharing dollars received by Detroit, Grand Rapids, Flint, Lansing, Ann Arbor, and Livonia for fiscal years 2001-2002 and 2002-2003 and the estimated percentage of revenue sharing the cities will receive in fiscal years 2003-2004 and 2004-2005. It also shows the percentage of the state's total population residing in each of the cities.

<u>City</u>	<u>Percent of Total Revenue Sharing</u>				<u>% Of Total State Population</u>
	<u>2001-2002</u>	<u>2002-2003</u>	<u>2003-2004</u>	<u>2004-2005</u>	
Detroit	22.0%	22.0%	22.0%	22.0%	9.6%
Grand Rapids	1.8	1.8	1.8	1.8	2.0
Flint	1.5	1.5	1.5	1.5	1.3
Lansing	1.3	1.3	1.3	1.3	1.7
Ann Arbor	0.9	0.9	0.9	0.9	1.2
Livonia	0.7	0.7	0.7	0.7	1.0

On a per capita basis, Detroit received \$352 per resident prior to the reductions in revenue sharing. In 2004-2005, the Governor's Executive budget calls for Detroit to receive \$303 per resident. Other cities receive much less than this. Flint, the city receiving the closest amount to Detroit is budgeted to receive \$160 per resident. This is just over half of what Detroit will receive per resident.



The following chart and table show the per capita amount each of the aforementioned cities received in State Revenue Sharing payments for fiscal years 2001-2002 and 2002-2003 and the estimated amount for 2003-2004 and 2004-2005.



Dollars Per Capita				
City	2001-2002	2002-2003	2003-2004 (Estimated)	2004-2005 (Estimated)
Detroit	\$351.76	\$336.84	\$305.16	\$303.13
Grand Rapids	138.67	133.44	120.89	120.08
Flint	185.73	178.34	161.56	160.49
Lansing	173.52	163.02	147.69	146.71
Ann Arbor	118.58	112.38	101.81	101.13
Livonia	107.90	103.12	93.42	92.80

## PROPERTY TAX REVENUE

Property Tax Revenue includes the collection of current taxes on both real property (i.e., real estate) and personal property (e.g., machinery and equipment). The table below shows the budgeted Property Tax Revenues included in Schedule D of the 2004-2005 Mayor's Proposed Budget for both fiscal year 2004-2005 and fiscal year 2003-2004.

	In Millions		
	2004-2005 Mayor's Proposed Budget	2003-2004 Budget	Increase / (Decrease)
Gross Property Tax (excludes Library)	\$ 257.4	\$ 244.2	\$ 13.2
Less: Estimated Delinquencies	40.8	31.7	9.1
Net Property Tax	<u>\$ 216.6</u>	<u>\$ 212.5</u>	<u>\$ 4.1</u>
Delinquent Taxes (includes Interest & Penalty)	<u>\$ 79.6</u>	<u>\$ 50.8</u>	<u>\$ 28.8</u>

In performing our analysis, we determined that the figures shown in the 2004-2005 Mayor's Proposed Budget are incorrect. The correct amounts are detailed in the schedule below. In addition, tax levies, taxable valuations and tax rates (not including the Library) applicable to fiscal year 2004-2005 are compared to those of fiscal year 2003-2004 and to the 1994-1995 Budget, to provide a historical perspective, as follows:

	Correct 2004-2005 Budget	Correct 2003-2004 Budget	Increase / (Decrease)	1994-1995 Budget
<u>Tax Levies (Millions):</u>				
General Operations	\$ 166.4	\$ 156.6	\$ 9.8	\$ 117.9
Garbage Tax	25.0	23.5	1.5	17.7
Debt Service	62.3	62.1	.2	46.1
Total Tax Levy	<u>\$ 253.7</u>	<u>\$ 242.2</u>	<u>\$ 11.5</u>	<u>\$ 181.7</u>
Less: Estimated Delinquencies	40.6	31.5	9.1	20.0
Net Property Tax Collections	<u>\$ 213.1</u>	<u>\$ 210.7</u>	<u>\$ 2.4</u>	<u>\$ 161.7</u>
Taxable Valuations (Millions)	<u>\$ 8,335.8</u>	<u>\$ 7,844.2</u>	<u>\$ 491.6</u>	<u>\$ 5,895.8</u>
<u>Tax Rates (Per Thousand):</u>				
General Operations	\$ 19.9620	\$ 19.9620	\$ 0.0000	\$ 20.000
Garbage Tax	2.9943	2.9943	0.0000	3.000
Debt Service	7.4796	7.9245	(0.4449)	7.827
Total Tax Rate	<u>\$ 30.4359</u>	<u>\$ 30.8808</u>	<u>\$ (0.4449)</u>	<u>\$ 30.827</u>

The Budget Department used the taxable values included in the 2003-2004 adopted budget to derive the \$244.2 million budgeted for 2003-2004 gross property tax, rather than the certified tax roll. The certified tax roll (taxable values) was used by the Office of Auditor General to calculate the correct total tax levy (gross property tax) of \$242.2 million.

When calculating the 2004-2005 budgeted gross property tax for fiscal year 2004-2005, the Budget Department included \$3.7 million of taxes for non-ad valorem properties in its budget figure of \$257.4 million. The Budget Department indicated that the \$3.7 million belongs in Other Revenues, and the correct amount of the Total Tax Levy should be \$253.7 million, as calculated by the Office of the Auditor General.

Based on our analysis, the budgeted net property tax amounts of \$216.6 million for fiscal year 2004-2005 and \$212.5 million for fiscal year 2003-2004 included in the 2004-2005 Mayor's Proposed Budget are reasonable.

### **Collection of Delinquent Taxes**

Included in the 2004-2005 Mayor's Proposed Budget are estimates for delinquent property tax collections of \$79.6 million for fiscal year 2004-2005 and \$50.8 million for fiscal year 2003-2004. Based on the City's historical collections of delinquent property taxes, the two projections are unrealistic. However, the advance payment that the City will receive on the transfer of delinquent 2003 real property taxes to Wayne County under Public Act 246 of 2003 may make the 2003-2004 projection reasonable.

The most the City has collected in delinquent property taxes in recent years has been \$32.7 million in fiscal year 2001-2002, which included both the general and debt service funds' delinquent property taxes and consisted of principal, interest, and penalty amounts, and in fiscal year 2002-2003, the City collected only \$21.9 million in delinquent property taxes.

Included in the 2003-2004 budget is \$15.0 million in delinquent property taxes the City projected its outside collection agency would collect. The outside collection agency's performance has not been at the level anticipated. In the six-month period between October 14, 2003, and April 13, 2004, the City's outside collection agency collected \$5.2 million in delinquent taxes, of which the City's share is \$2.3 million. The agency's collection fees are 15% of the collections. Portions of the remaining collected amount belong to the Detroit Public Schools, the Detroit Public Library, and the State (for the State Education Tax). Together, during the first nine months of fiscal year 2003-2004, the City and its outside collection agency have collected \$14.9 million in delinquent property taxes, which is well below the \$50.8 million budgeted for fiscal year 2003-2004.

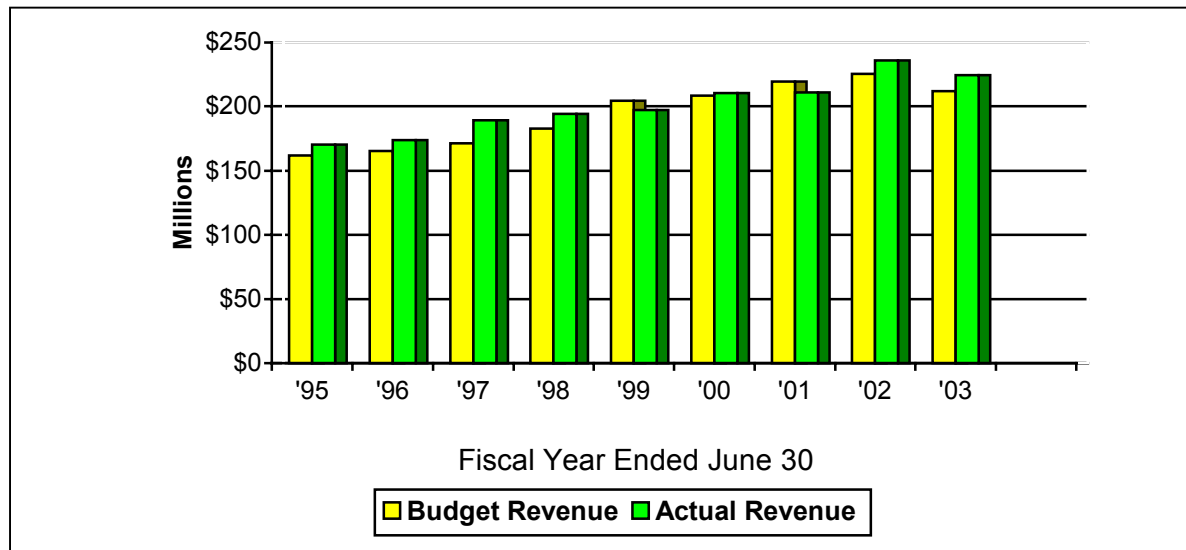
Public Act 246 of 2003 allows the City to transfer its delinquent real property taxes to the County in which it resides. The County will obtain tax anticipation notes and will pay the City in advance of collecting the tax revenue. Any uncollectible taxes will be deducted from the subsequent year's delinquent tax levy transfer to calculate the amount of the advance. In March 2004, the City transferred approximately \$37.0 million of 2003 delinquent tax levies to Wayne County. Wayne County is expected to pay the City for the transfer by the end of this fiscal year.

The Budget Department's assumptions underlying the budgeted collection of \$79.6 million in delinquent property taxes in fiscal year 2004-2005 are:

- The City expects to receive money for its delinquent real property taxes, relating to tax levy year 2004, from Wayne County under Public Act 246 of 2003.
- The City's outside collection agency will collect the older years' delinquent property taxes. Collections will occur throughout the entire fiscal year, unlike in fiscal year 2003-2004.
- The City Assessor's Office will conduct audits of companies that are holders of larger personal properties. As a result, delinquent personal property taxes will be identified and collected.

In our opinion, the amount estimated in the 2004-2005 Mayor's Proposed Budget for fiscal year 2003-2004 Delinquent Tax Revenue of \$50.8 million is reasonable, but the budgeted 2004-2005 Delinquent Tax Revenues of \$79.6 million is optimistic.

The following chart compares revised budgeted property taxes for both the general and debt service funds to actual collections of property taxes for fiscal years 1994-1995 through 2002-2003:



## UTILITY USERS EXCISE TAX REVENUE

The Utility Users Tax Act (initially approved as Public Act (PA) 198 of 1970), as amended, allows cities with a population greater than 750,000 to assess and collect up to a 5% tax on users for intrastate telephone services (excluding cellular telephone services) and electric, steam, and gas utilities. The current rate charged for Utility Users Tax in the City of Detroit is 5%. The tax is billed by the public utility or resale customer and remitted monthly to the City.

The City's actual collections, for the last four years for which data is available, have been within 5% of the budgeted Utility Users Tax revenue. The following schedule compares budgeted Utility Users Tax revenue to actual revenue beginning with the 1995-1996 fiscal year:

In Millions				
<u>Year</u>	<u>Budgeted Revenue</u>	<u>Actual Revenue</u>	Actual Over/ (Under) <u>Budget</u>	Percent Over/ (Under) <u>Budget</u>
1995-1996	\$ 56.3	\$ 53.9	\$ (2.4)	( 4.3)%
1996-1997	54.7	54.6	(0.1)	( 0.2)
1997-1998	57.4	50.1	(7.3)	(12.7)
1998-1999	54.7	50.9	(3.8)	( 6.9)
1999-2000	54.6	54.5	(0.1)	( 0.2)
2000-2001	54.6	54.3	(0.3)	( 0.5)
2001-2002	54.6	52.1	(2.5)	( 4.6)
2002-2003	54.6	55.3	0.7	1.3
2003-2004	55.0	55.0 (A)	-	-
2004-2005	55.0	N/A	N/A	N/A

(A) For 2003-2004, projected revenues are shown in Chart 6, City of Detroit-General Fund Percent Change in Major Revenue Sources, of the Mayor's 2004-2005 Budget Message.

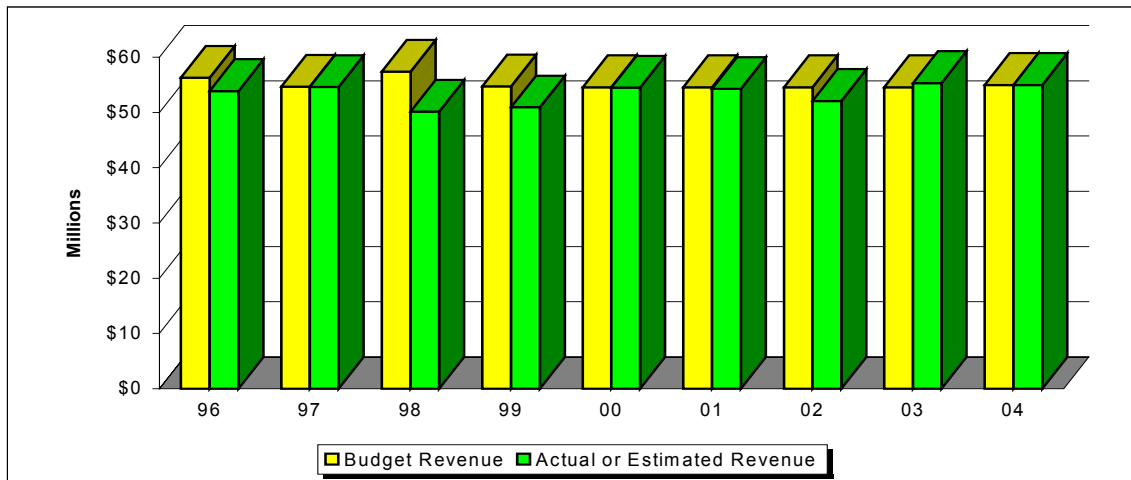
N/A For 2004-2005, the actual revenue amount, variance, and related percentage are not yet available.

Utility Users Tax revenues are used exclusively for Police Department operations. The Utility Users Tax Act, as amended, provides that these tax monies must be used to retain or hire police officers. The Act also requires that the amount of each fiscal year's Utility Users Tax revenue collected in excess of \$45.0 million be dedicated and used exclusively to hire or retain additional police officers having the rank of sergeant or below over the level employed on November 1, 1984 of 3,537.

The number of active police officers having the rank of sergeant or below was 3,550 on March 31, 2004, which is 13 above the number required by the Utility Users Tax Act. Should the number of officers fall below 3,537, the Utility Users Tax Act requires that "the rate of tax imposed for the following fiscal year shall be lowered in decrements of ¼ of 1% for each full 5% collected in excess of \$45.0 million."

Utility Users Excise Tax revenue is budgeted at \$55.0 million in the 2004-2005 Mayor's Proposed Budget, the same amount in the 2003-2004 budget. In our opinion, this revenue estimate is reasonable, since actual revenues were \$54.3 million in 2000-2001, \$52.1 million in 2001-2002, \$55.3 million for 2002-2003, and is projected at \$55.0 million for 2003-2004.

The chart below compares budgeted Utility Users Excise Tax revenue to the actual revenue for fiscal years 1995-1996 to 2002-2003, and the budgeted Utility Users Excise Tax revenue to the revenue estimated for fiscal year 2003-2004 in the Mayor's Proposed Budget.



## **CASINO REVENUES**

Pursuant to State of Michigan Public Act 69 of 1997, the City receives Wagering Taxes and Municipal Service Fees from the MGM Grand Detroit, MotorCity and Greektown Casinos. Wagering Tax revenue represents 9.9% of net win, which is the gross casino receipts less winnings paid out to wagers.

The following schedule compares total casino revenue included in the 2004-2005 Mayor's Proposed Budget to the 2003-2004 Budget:

	In Millions		
	2004-2005 Mayor's Proposed Budget	2003-2004 Budget	Increase (Decrease)
Wagering Tax	\$ 115.6	\$ 110.0	\$ 5.6
Municipal Service Fee	14.3	13.9	0.4
Casino Enhancement Fee	—	46.8	(46.8)
Total	<u>\$ 129.9</u>	<u>\$ 170.7</u>	<u>\$ (40.8)</u>

### **Wagering Tax**

The 2004-2005 Mayor's Proposed Budget includes \$115.6 million in Casino Wagering Taxes, an increase of \$5.6 million (5.1%) from the 2003-2004 budget amount of \$110.0 million. The City's actual wagering tax revenue for 2002-2003 was \$111.3 million, \$6.3 million over the budget amount. For 2003-2004, the Budget Department estimates actual wagering tax revenue will be at \$113.3 million, or \$3.3 million (3.0%) more than the \$110.0 million budget amount. Based on our reviews of actual and projected casino revenue data, the 2004-2005 budget of \$115.6 million for Casino Wagering Taxes appears reasonable.

### **Municipal Service Fee**

The 2004-2005 Mayor's Proposed Budget includes \$14.3 million in Municipal Service Fees, an increase of \$0.4 million (2.9%) from the 2003-2004 budget amount. The Municipal Service Fee is collected from casino operators to offset expenditures incurred by the City as a result of the casinos' requirements for public safety services. The amount of the Municipal Service Fee is the greater of 1.25% of net win or \$4 million per licensee. This fee is paid to the City on the anniversary date of each casino's opening.

The 2004-2005 Mayor's Proposed Budget includes \$17.1 million for 125 police officers and 48 fire and emergency medical service (EMS) employees for the three casinos. The number of budgeted positions for police, fire and EMS is unchanged from the previous budget. In the 2004-2005 fiscal year, the Municipal Service Fee is expected to fund \$14.3 million and the General Fund will fund \$2.8 million of the expenditures for these services. Based on our review of staffing levels and actual expenditures, the budget estimate for Municipal Service Fees appears reasonable.

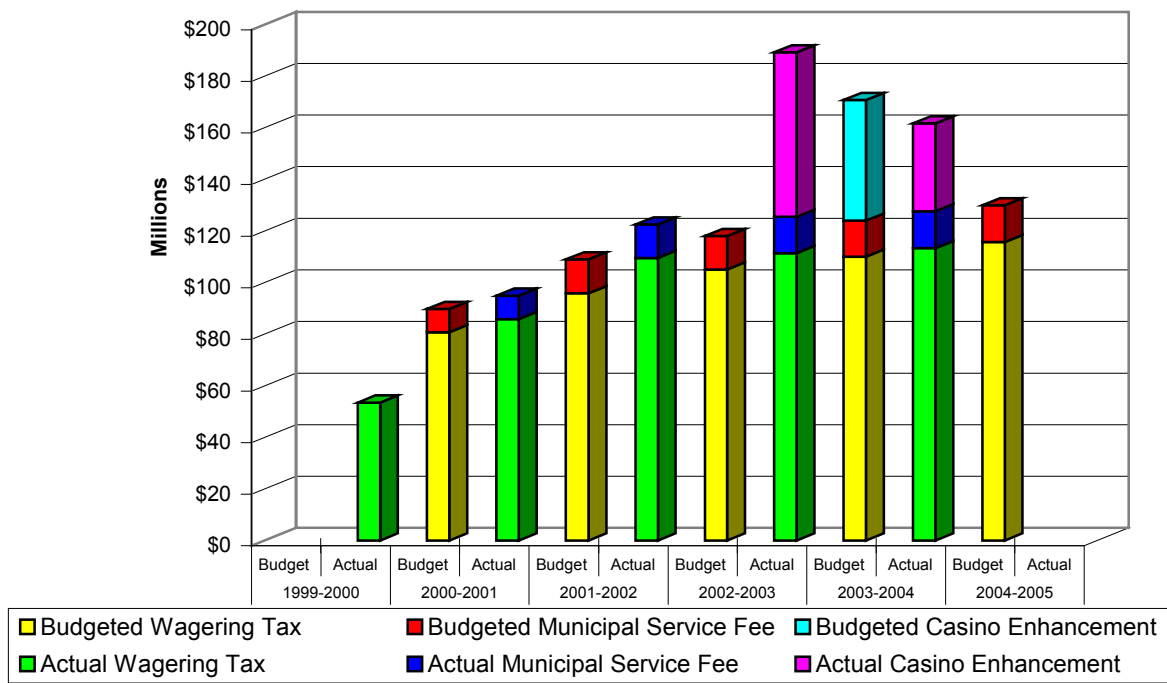
The following table compares total casino appropriations funded by Municipal Service Fees and the public safety services provided in the 2004-2005 Mayor's Proposed Budget to the 2003-2004 Budgeted appropriations and services:

In Millions			
	2004-2005 Mayor's Proposed Budget	2003-2004 Budget	Increase (Decrease)
Gaming:			
Police	\$ 12.7	\$ 11.1	\$ 1.6
Fire (including EMS Casino)	4.4	4.1	0.3
Total Appropriations	\$ 17.1	\$ 15.2	\$ 1.9
Less: Municipal Service Fee	14.3	13.9	0.4
Balance supported by General Fund	\$ 2.8	\$ 1.3	\$ 1.5

### Casino Enhancement Fee

The \$46.8 million decrease in Casino Enhancement Fees reflects the completion of the payments made by the casinos as required by the revised development agreements. These payments totaled \$102 million and were paid to the City over a two-year period.

The chart below compares the budgeted and actual or estimated casino revenues from fiscal year 1999-2000 through fiscal year 2004-2005. The actual column for fiscal year 2003-2004 is the Budget Department's estimate of revenues that will be collected.





### **Revised Development Agreements**

In August 2002, the City Council approved revised development agreements with the three casino developers. The long-term agreements allow the casino operators to proceed with the construction of new permanent casinos. In a lawsuit, the Lac Vieux Desert Band of Lake Superior Chippewa Indians challenged the constitutionality of the City casino licensing competitive selection process. The Court issued an injunction temporarily enjoining the City from issuing building permits and the developers from starting construction of the permanent casinos. Although the Court approved settlement agreements in April 2004 between the Lac Vieux Indians and the MotorCity and Greektown Casinos, (Lac Vieux Desert Band of Lake Superior Chippewa Indians v. Michigan Gaming Board, et al.), MGM Grand Detroit has elected to challenge the settlement and will appeal the Court's ruling. Until a decision is made on MGM's appeal, the injunction remains in place for all three casinos.

## **BOND SALES**

The 2004-2005 Mayor's Proposed Budget includes revenues from bond sales totaling \$886.7 million including:

<u>Unlimited General Obligation</u>	
Capital Projects	\$ 42.0 million
<u>Limited General Obligation</u>	
New Vehicle Purchases	\$ 28.5 million
Risk Management Bonds	61.1 million
Pension Obligation Bonds	80.1 million
<u>Revenue Bonds (Enterprise Funds)</u>	
Water Revenue Bonds	\$ 400.0 million
Sewerage Revenue Bonds	275.0 million

In addition, the following bonds will be issued but are not included in the 2004-2005 Budget:

Fiscal Stabilization Bonds	\$ 61.0 million
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The following bond issues are being discussed:

Limited General Obligation - New Police Headquarters	\$ 100.0 million
Pension Obligation Bonds	1,200.0 million

The individual bond issues, the City's bond ratings, and debt margin are discussed in detail below.

### **Bond Ratings as of April 1, 2004**

Agency	General Obligation Unlimited Tax	General Obligation Unlimited Tax with Municipal Bond Insurance or Letter of Credit
Fitch Ratings Ltd.	A	AAA
Moody's Investor Service	Baa1	Aaa
Standard & Poor's	A-1	AAA

These bond ratings, which are investment grade, are unchanged from a year ago.

This year Moody's Investor Service (Moody's) and Fitch Ratings Ltd. (Fitch) downgraded their rating outlook for City of Detroit general obligation debt. The \$69.1 million General Fund deficit for 2002-2003 adversely impacted both Fitch and Moody's ratings outlook. Fitch defines a rating outlook as an indication of the direction a rating is likely to move over a one to two-year period. The Fitch rating outlook was changed (March 29, 2004) to negative from stable, affecting \$601.9 million of outstanding unlimited tax general obligation debt and \$486.9 million of outstanding limited tax general obligation debt. Fitch's rating outlook was "changed to negative because of weaker local and state tax revenue performance, combined with increased pension costs and housing commission write-offs."

Moody's revised its outlook on the City of Detroit's general obligation bond ratings (unlimited and limited tax) to stable from positive. Moody's cited "... the City's narrowed financial position resulting from revenue shortfalls and draws on reserves (Budget Stabilization Fund) with diminished prospects for replenishment." Moody's also noted that, "Detroit's debt ratios are above average with a direct debt burden of 5.9% and overall debt burden at 12.4%. Overlapping

debt has increased significantly due almost entirely to sizeable debt issuances by the City of Detroit School District, which now has \$1.5 billion in outstanding debt. Detroit's debt ratios have also risen as a result of the city's stagnant tax base; this contrasts with the property valuation growth that has helped many local governments through the recession."

Moody's noted that although the City's high debt burden was beginning to moderate, "Detroit's overall debt burden remains high at 10.9% of full valuation although the ratio has declined slightly in recent years as debt is rapidly amortized and the tax base has grown. A significant portion of the city's debt is secured by its general obligation limited tax pledge and, consequently, the exposure to claims on the City's operating funds is sizable. However, the City's debt burden should moderate as approximately \$380 million of limited tax debt issued for the resource recovery facility (GDRRA) will be fully amortized by 2009. This will eliminate \$75 million or about half of the city's annual debt service burden."

Moody's September 2000 report "The Nation's Largest Cities Benefit From Improved Economic and Financial Management Strategies," provides comparisons of the nation's 32 largest cities' long-term credit. While Detroit was cited for its urban renaissance, elimination of General Fund deficits and growth of reserve levels (Budget Stabilization Fund), compared to other cities Detroit had a high overall debt burden (second highest after Philadelphia) and the lowest taxable value of property of all 32 cities. The overall debt burden is based on the net debt per capita divided by the taxable value per capita. The report also showed that most of the cities' major revenue source was from property taxes. Detroit's major revenue source listed was Municipal Income Tax.

Standard & Poor's (S&P) noted, "Despite a rapid amortization schedule, Detroit's debt ratios remain high at \$2,714 (net debt per capita) and 10.7% of full value (i.e., taxable value). The recent increase in the city's debt burden is primarily due to a higher overlapping debt burden, specifically from the Detroit Public Schools. The city has structured its debt with the majority of principal repayment up-front, and in fiscal 2009 the city will reach the end of its high debt service obligations. As a result, the amortization speed is quite rapid, with 82% of the city's debt retired within 10 years, providing a substantial amount of operating flexibility in the future. Bond proceeds will be used for capital improvement projects and to refund outstanding debt."

A December 2002 analysis of the City of Detroit debt burden by Moody's included "The city's leveraged debt position is reflected in its high debt service burden that accounts for about 10% of general fund spending." The City's annual debt service (principal and interest payment) expenditures from the General Fund and General City agencies have ranged from \$90.9 million in 1994 to \$126.0 million in 2003. The ratio of total debt service to total general governmental expenditures (General Fund and General City agencies) has ranged from 10.63% in 1995 to 6.36% in 2003.

The following table shows total debt service for the past eleven years:

Year	Total Debt Service In Millions
1993	\$ 93.8
1994	90.9
1995	133.4
1996	92.0
1997	123.5
1998	116.2
1999	116.7
2000	126.2
2001	127.0
2002	124.6
2003	126.0

### Debt Burden

The following schedule compares the assessed value for property in the City of Detroit, net debt, net debt per capita, and ratio of net debt to assessed value for the years 1965 to 2003

Year	In Millions		Ratio Net Debt To Assessed Value	Net Debt Per Capita
	Assessed Value	Net Debt		
1965	\$ 5,196.0	\$ 289.2	5.57%	\$ 177
1970	5,306.3	306.1	5.77	203
1975	5,792.1	320.7	5.54	240
1980	5,227.4	367.1	7.02	306
1985	5,230.7	273.0	5.22	253
1990	5,579.8	872.4	15.63	849
1995	5,887.3	1,171.7	19.90	1,181
2000	6,856.7	1,021.0	14.89	1,073
2001	7,639.8	938.1	12.28	986
2002	7,976.0	962.1	12.06	1,011
2003	7,844.2	909.6	11.60	956

The total assessed value of property in the City of Detroit remained stable from 1965 until the mid 1990s when it started to grow along with the City's economy. The data does not reflect the decline in property (i.e., housing stock) in the City in the 1970s, 1980s, and 1990s, which was offset by marginal increases in the taxable value of the remaining property primarily due to inflation. The net debt per capita represents the City's net debt divided by the estimated population. The net debt per capita and the ratio of net debt to assessed value was relatively stable until the late 1980s when the City issued bonds for the resource recovery facility (GDRRA). Additional debt issues in the 1980s, 1990s, and 2000s including self-insurance bonds have further pushed up the net debt per capita. Commencing in 1996, the ratio of net debt to assessed value has declined due to increased property values and declining debt. The issuance of new debt in 2004-2005 for self-insurance and fiscal stabilization bonds will negatively impact this downward trend.

**Total Legal Debt Margin (General Purpose and Hospital)**

The Home Rule City Act (Public Act 279 of 1909) limits the maximum amount of net indebtedness that may be incurred for public purposes. The limit is set at 10.0 % of the City's state equalized valuation (adjusted for certain assessed value equivalents) or 15.0% if that portion which exceeds 10.0% is used solely for construction or renovations of hospital facilities. However, allowances under various Public Acts provide for the exclusion of certain general obligation debt (e.g., Greater Detroit Resource Recovery bonds) from the limit. As of April 1, 2004, the general-purpose limit for the City was \$1.321 billion, which includes \$689.7 million of outstanding debt. Therefore the City may issue additional bonds in the amount of \$631.3 million. The City may also issue an additional \$660.5 million of debt, if it is related to the construction or renovation of hospital facilities.

**Fiscal Stabilization Bonds**

The Mayor in his 2004-2005 Proposed Budget address stated, "To address that deficit (\$69.1 million from fiscal year 2002-2003), I am proposing selling \$61 million in Fiscal Stabilization Bonds, the difference will be made up from an \$8 million withdrawal from the Budget Stabilization Fund." The Fiscal Stabilization Bonds are not required nor included in the 2004-2005 Mayor's Proposed Budget. However, they may impact the City's credit rating and will increase the debt burden.

**Bonds Issued for Capital Projects**

The sale of voter approved general obligation bonds will generate \$42.0 million which is the same amount included in the 2003-2004 Budget. The estimated cost of bond underwriting expense is \$0.8 million, or 2%, of bond sales. The 2004-2005 Mayor's Proposed Budget also includes revenues of \$0.9 million from Bond Fund investment earnings, a decrease of \$1.3 million from the 2003-2004 Budget. These investment earnings are slated for reinvestment in capital projects. The bond proceeds and Bond Fund investment earnings will provide financing for the multiple capital improvement projects in fiscal year 2004-2005 including \$10 million for Public Lighting projects, \$6.4 million for Recreation Department projects and \$6.2 million for Police Department projects.

On April 29, 2003, City voters approved authorization and issuance of \$6.0 million in general obligation limited tax bonds to renovate and expand the Charles H. Wright Museum of African American History but rejected three other general obligation limited tax bond proposals totaling \$125.0 million. As of April 1, 2004, the amount of voter authorized and unissued general obligation bonds totaled \$121.4 million

**Bonds Issued for Internal Service Fund**

The 2004-2005 Mayor's Proposed Budget includes \$28.5 million for the sale of limited general obligation bonds to finance new vehicle purchases. In 2003-2004 the Budget included \$30.5 million for the sale of limited general obligation bonds to finance vehicle purchases.

**Bonds Issued for Risk Management Payments**

The 2004-2005 Mayor's Proposed Budget includes \$61.1 million to fund risk management payments. The bond proceeds are earmarked for the insurance premiums due to the Risk Management Fund for the Detroit Department of Transportation (DDOT) and the general fund agencies. Our review of the Risk Management Fund includes an analysis of the financing for the risk management payments.

The 2003-2004 Budget included \$60.2 million to fund risk management payments. The 2003-2004 Mayor's Budget Message included a reference to financing funds, on a one-time basis, to

make the risk management payment. S&P commented on the issuance of the 2003-2004 self-insurance bonds by stating, "While stretching out a current expense over 10 years is not considered a credit strength, it was viewed by Standard and Poor's Ratings Services as part of a greater restructuring effort."

The purpose of financing the risk management payments for fiscal year 2004-2005 is to avoid layoffs and other spending cuts that would otherwise have to be made and to provide the City administration time to restore the financial health of the City. The inherent exposure related to the issuance of limited tax general obligation bonds is the obligation to pay debt service from the non-restricted assets of the General Fund, the effect of which is to reduce the amount that otherwise would be available to support current operations.

**The City's debt policy specifies that debt should only be issued for capital purposes.**

### **Pension Obligation Bonds**

The Mayor's 2004-2005 Proposed Budget includes \$80.1 million in revenues related to the sale of Pension Obligation Bonds (POBs) to fund the City's required contributions for unfunded actuarial accrued liability for 2004-2005 to avoid laying off City employees and reducing City services. However, the City plans on funding the entire \$1.2 billion combined unfunded liability of both the General Retirement System and the Policemen and Firemen Retirement System. The use of POBs is expected to produce pension contribution savings to the City, estimated by the Chief Financial Officer (CFO) to be \$24-\$26 million per year for the next 10-12 years. As of the date of this analysis, the City has not worked out all the details for this sale.

The City plans on using an innovative method of financing which will combine the purpose of POBs with the methodology of Certificates of Participation. This would result in the liability remaining an off balance sheet item and not being included in the computation of the legal debt margin. POBs are generally backed either by the benefiting municipality's general obligation pledge or by a pledge of annual appropriations. POBs are not secured by the assets of the pension funds. The CFO has indicated that the City's bond counsel has determined that the planned financing of the unfunded actuarial accrued liability of the City's two pension systems meets all legal requirements.

POBs are attractive because of the potential earnings from risk arbitrage, which is the simultaneous purchase and sale of assets that are potentially but not necessarily equivalent. Bonds (perceived by buyers as low-risk securities) are sold and proceeds are invested in riskier and presumably higher yielding securities. Cost savings can result from the use of POBs when the debt service requirements of the POBs are lower than the original amortized payment schedule for the unfunded actuarial accrued liability (UAAL). Therefore the return on the funds contributed to the pension fund for investment must be significantly greater than the interest that must be paid on the bonds. Conversely, POBs can result in the issuer paying higher contributions to cover new actuarial losses and bond interest costs if the returns are lower than anticipated or lower than the rate being paid on the bonds. To be successful, the pension funds would have to earn over 8% each year during the life of the bonds. The City will have to change the Pension Ordinances in order for the planned savings from POBs to be realized.

A UAAL for pension benefits generally represents the difference between the present value of all benefits estimated to be payable to plan members and the actuarial value of plan assets available to pay benefits. This amount changes over time to reflect changing conditions. Governments normally reduce their UAAL over time as part of their annual required pension contribution. Some governments, however, have elected to issue POBs to reduce their UAAL.

The Government Finance Officers Association (GFOA) recommends that state and local governments use caution in issuing POBs. The GFOA warns, "Governments should be sure they are legally authorized to issue these bonds and that other legal or statutory requirements governing the pension fund are not violated. Furthermore, the issuance of the pension obligation bonds should not become a substitute for prudent funding of pension plans. Before deciding to issue pension obligation bonds, a governmental entity should undertake a careful financial analysis..." The following issues were some of the issues for consideration recommended by the GFOA:

1. Expected savings can be reduced or eliminated if the expected rate of return on the bond proceeds is not significantly higher than the rates paid on the bonds.
2. UAALs may still occur in the future resulting from changes in benefit levels, experience losses, demographics, or factors that were not anticipated when bonds were issued.
3. Structuring the POBs to take savings up front by deferring principal payments will result in a higher true interest cost on the bonds and, thus, lower overall savings.
4. The pension fund may earn less through a single, large contribution than it would by averaging payments on the unfunded obligation over the amortization period if the market declines or rises at a below-average rate during that period. The lower earnings would then affect future contributions needed.
5. Analysis should extend out through the amortization period of the unfunded liability on a cash flow basis. The total current pension-related cash outlays (contribution plus bond – related payments) on a net present value basis should be less than would have been the case had the bonds not been issued.

Because POBs are used for financial risk arbitrage, the US Treasury Department does not permit them to be issued on a tax-exempt basis. This naturally increases the cost of the bonds and narrows the hoped-for-margin of return, pension investments over pension bond costs.

An article on POBs, "Risky Business? Evaluating the Use of Pension Obligation Bonds" in the *Government Finance Review*, dated June 2003, noted, "...pension bonds may appear to be a convenient way out of an impending budget crunch. Instead of a large increase in contributions via the operating budget, or acrimonious negotiations designed to reduce benefit or workforce levels (which would have the effect of reducing total liabilities), the bond market may offer an alternative for elected officials. Indeed, the favorable publicity surrounding the elimination of a large unfunded obligation (an issue of immediate concern to current or prospective retirees and their families) can usually be expected to overshadow the increased risk that taxpayers will ultimately bear." The article also noted that POBs can work if the following conditions occur:

- Borrowers should have a reasonable capacity to bear increased financial risk. This would imply that borrowers have above average financial strength in terms of their balance sheets and fiscal outlook.
- The size of the bond issue should not constrain additional borrowing by the responsible party for traditional, nonfinancial purposes.
- The issue should be callable.
- Scheduled debt service should be of roughly equal annual levels.

The *Government Finance Review* article concluded, "Like any financial debt instrument, pension bonds are two-edged swords. In the hands of the right borrower, a well-designed pension bond

issue may play a useful if limited role in managing pension fund obligations. However, a poorly designed issue for the account of an inappropriate borrower may simply reflect a desperate effort to avoid coming to terms with fiscal reality, with unpleasant ultimate consequences for all concerned.”

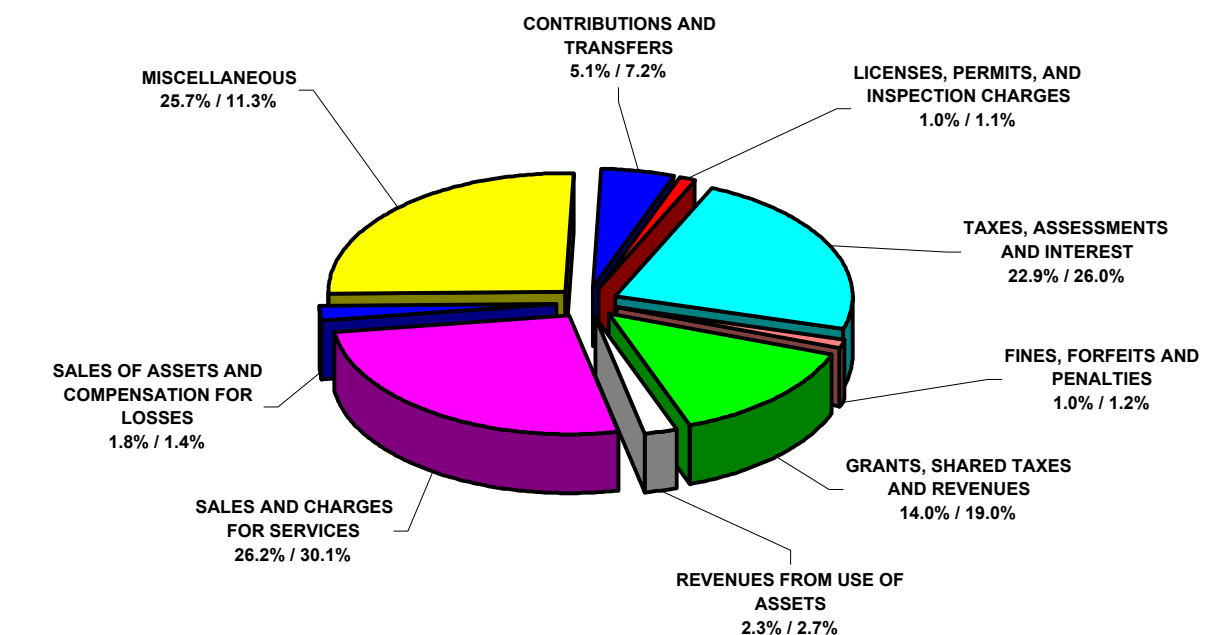
Our review of the Pension Appropriations includes an analysis of the Pension Obligation Bonds.

### **Revenue Bonds**

The 2004-2005 Mayor's Proposed Budget includes \$675.0 million in proceeds from the sale of revenue bonds for the Water and Sewerage Department. A total of \$400.0 million of Water Revenue Bonds and \$275.0 million of Sewerage Revenue Bonds are to be issued. The 2003-2004 Budget did not include any proceeds from the sale of revenue bonds. The 2002-2003 budget included the sale of Sewerage Revenue Bonds totaling \$410.0 million for capital improvements and Water Revenue Bonds totaling \$360.0 million for various water improvement projects. The Water and Sewerage Bond sales are a part of the Department's effort to improve the water and sewerage systems in the region.



# **MAJOR REVENUES BY SOURCE** **2004-2005 MAYOR'S BUDGET / 2003-2004 BUDGET**



REVENUE SOURCE	2004-2005 MAYOR'S BUDGET	2003-2004 BUDGET	INCREASE (DECREASE)	PERCENT CHANGE
LICENSES, PERMITS, AND INSPECTION CHARGES	\$ 36,912,546	\$ 33,769,004	\$ 3,143,542	9.31 %
TAXES, ASSESSMENTS AND INTEREST	855,603,180	807,238,117	48,365,063	5.99
FINES, FORFEITS AND PENALTIES	37,805,060	38,035,743	(230,683)	(0.61)
GRANTS, SHARED TAXES AND REVENUES	522,332,694	589,778,729	(67,446,035)	(11.44)
REVENUES FROM USE OF ASSETS	84,310,919	84,631,360	(320,441)	(0.38)
SALES AND CHARGES FOR SERVICES	977,917,924	936,251,944	41,665,980	4.45
SALES OF ASSETS AND COMPENSATION FOR LOSSES	67,787,117	43,623,730	24,163,387	55.39
MISCELLANEOUS	959,984,735	349,432,936	610,551,799 (A)	174.73
CONTRIBUTIONS AND TRANSFERS	191,900,807	222,553,056	(30,652,249)	(13.77)
<b>TOTAL</b>	<b>\$3,734,554,982 (A)</b>	<b>\$3,105,314,619</b>	<b>\$ 629,240,363</b>	<b>20.26 %</b>

(A) This increase is largely due to a \$400 million issuance of Water Bonds and a \$275 million issuance of Sewerage Bonds.

**ESTIMATED REVENUES BY SOURCE**  
**2004-2005 MAYOR'S BUDGET / 2003-2004 BUDGET**  
(In Millions)

	2004-2005 Mayor's Budget	2003-2004 Budget	Increase (Decrease)
<b>LOCAL SOURCES</b>			
Gross Property Tax (excludes Library)	\$ 257.4	\$ 244.2	\$ 13.2
Less: Estimated Delinquencies	(40.8)	(31.7)	(9.1)
Net Property Tax	\$ 216.6	\$ 212.5	\$ 4.1
Administrative Fees	7.2	5.6	1.6
Delinquent Taxes (includes Interest and Penalty)	79.6	50.8	28.8
Downtown Development Authority	1.4	1.4	-
Earnings on Investments	4.0	4.8	(0.8)
General Obligation Bonds	42.0	42.0	-
Internal Reserve Fund (Vehicles)	28.5	33.0	(4.5)
Licenses, Permits, and Inspection Charges	11.9	33.8	(21.9)
Limited/Pledged Debt Expense	13.6	13.6	-
Municipal Income Tax	311.1	300.4	10.7
Prior Years Municipal Income Tax	8.0	10.7	(2.7)
Municipal Service Fee (Casinos)	14.3	13.9	0.4
Wagering Tax (Casinos)	115.6	110.0	5.6
Ordinance Fines	16.7	16.8	(0.1)
Casino Enhancement Revenue	-	46.8	(46.8)
Parking Fines	11.7	11.7	-
Risk Management Fund (Workers' Compensation Pass Through)	18.8	19.4	(0.6)
Sale of Electricity and Steam	48.8	47.8	1.0
Sale of Assets	35.6	-	35.6
RMF Sale of Bonds	61.1	60.2	0.9
Pension Obligation Bonds	80.1	-	80.1
Sales and Charges for Services	111.6	127.0	(15.4)
Supplemental Fee (GDRRA)	41.9	33.5	8.4
Utility Users Excise Tax	55.0	55.0	-
Other Revenues	100.0	77.5	22.5
Enterprise Agencies			
Library Revenues (Excluding Federal and State Sources)	37.9	32.3	5.6
Revenue Bonds	675.0	-	675.0
Revenue from Operations	840.0	837.3	2.7
Subsidy from General Fund	79.9	87.8	(7.9)
<b>SUBTOTAL - MAJOR LOCAL REVENUES</b>	<b>\$ 3,067.9</b>	<b>\$ 2,285.6</b>	<b>\$ 782.3</b>
<b>FEDERAL SOURCES</b>			
Community Development Block Grant	\$ 52.3	\$ 50.3	\$ 2.0
Community Service Block Grant	7.2	8.1	(0.9)
Crime Bill (Police)	4.1	5.1	(1.0)
Department of Energy Weatherization Grant	3.9	3.5	0.4
Federal Housing Subsidy	-	53.4	(53.4)
Head Start Grant	52.0	51.1	0.9
Health Grants	40.4	35.9	4.5
Home Investment Grant	-	11.3	(11.3)
Housing Comprehensive Grant	-	28.0	(28.0)
Work Force Investment Act Grant	22.6	21.3	1.3
Medicare Reimbursement-EMS	3.2	6.2	(3.0)
Michigan Occupational Skills Training Grant	20.9	30.6	(9.7)
Other Revenues	14.3	6.1	8.2
<b>SUBTOTAL - MAJOR FEDERAL REVENUES</b>	<b>\$ 220.9</b>	<b>\$ 310.9</b>	<b>\$ (90.0)</b>
<b>STATE OF MICHIGAN SOURCES</b>			
Equity Package (Cultural)	\$ 3.5	\$ 4.3	\$ (0.8)
Equity Package (Police)	0.4	0.9	(0.5)
Gas and Weight Taxes	54.3	53.2	1.1
Library Community Programs	0.8	0.8	-
Mass Transportation Funds	58.1	54.5	3.6
Medicaid Reimbursements	2.6	1.8	0.8
Public Health Programs	19.7	26.8	(7.1)
State Revenue Sharing (General Fund)	286.1	310.8	(24.7)
State Revenue Sharing (Library)	1.6	1.8	(0.2)
Other Revenues	18.8	54.2	(35.4)
<b>SUBTOTAL - MAJOR STATE REVENUES</b>	<b>\$ 445.9</b>	<b>\$ 509.1</b>	<b>\$ (63.2)</b>
<b>TOTAL REVENUES - ALL SOURCES</b>	<b>\$ 3,734.7</b>	<b>\$ 3,105.6</b>	<b>\$ 629.1</b>

**ESTIMATED REVENUES  
MAJOR INCREASES AND DECREASES  
(\$5 MILLION OR MORE)  
2004-2005 MAYOR'S BUDGET / 2003-2004 BUDGET**

<b>REVENUE CATEGORY</b>	<b>In Millions</b>		
	<b>2004-2005 Mayor's Budget</b>	<b>2003-2004 Budget</b>	<b>Increase (Decrease)</b>
<u>LOCAL SOURCES:</u>			
Casinos Enhancement Revenue	\$ -	\$ 46.8	\$ (46.8)
Licenses, Permits and Inspection Charges	11.9	33.8	(21.9)
Sales and Charges for Services	111.6	127.0	(15.4)
Wagering Tax (Casinos)	115.6	110.0	5.6
Supplemental Fee (GDRRA)	41.9	33.5	8.4
Municipal Income Tax	311.1	300.4	10.7
Other Revenues	100.0	77.5	22.5
Delinquent Taxes (includes Interest & Penalties)	79.6	50.8	28.8
Sale of Assets	35.6	-	35.6
Pension Obligation Bonds	80.1	-	80.1
Enterprise Agencies:			
Subsidy from General Fund	\$ 79.9	\$ 87.8	\$ (7.9)
Library Revenues	37.9	32.3	5.6
Revenue Bonds	675.0	-	675.0
<u>FEDERAL SOURCES:</u>			
Federal Housing Subsidy	\$ -	\$ 53.4	\$ (53.4)
Housing Comprehensive Grant	-	28.0	(28.0)
Home Investment Grant	-	11.3	(11.3)
Michigan Occupational Skills Training Grant	20.9	30.6	(9.7)
Other Revenues	14.3	6.1	8.2
<u>STATE OF MICHIGAN SOURCES</u>			
Other Revenues	\$ 18.8	\$ 54.2	\$ (35.4)
State Revenue Sharing - General Fund	286.1	310.8	(24.7)
Public Health Programs	19.7	26.8	(7.1)

**ESTIMATED REVENUES BY AGENCY**  
**2004-2005 MAYOR'S BUDGET / 2003-2004 BUDGET**

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AGENCY	2004-2005 Mayor's Budget		2003-2004 Budget	
	Amount	Percent of Total	Amount	Percent of Total
<b>GENERAL CITY AGENCIES:</b>				
<b>EXECUTIVE AGENCIES:</b>				
11 Arts	\$ -	0.00%	\$ -	0.00%
12 Budget	-	0.00	-	0.00
14 Civic Center	10,142,661	0.27	10,109,659	0.33
15 Communications and Creative Services	94,973	0.00	-	0.00
16 Consumer Affairs (A)	-	0.00	1,706,180	0.05
17 Department of Culture, Arts and Tourism(B)	1,841,499	0.05	1,306,165	0.04
19 Department of Public Works	74,463,706	1.99	72,224,927	2.33
21 Detroit Workforce Development Dept. (C)	43,584,185	1.17	82,977,071	2.67
22 Environmental Affairs	3,280,207	0.09	2,885,517	0.09
23 Finance	8,232,610	0.22	7,840,913	0.25
24 Fire	12,771,720	0.34	9,858,223	0.32
25 Dept. of Health and Wellness Promotion(D)	74,249,878	1.99	72,341,035	2.33
26 Historical	2,064,134	0.06	842,705	0.03
28 Human Resources	14,803,856	0.40	12,488,589	0.40
29 Human Rights	61,200	0.00	61,200	0.00
30 Human Services	73,457,130	1.97	72,540,151	2.34
31 Information Technology Services	747,305	0.02	3,069,747	0.10
32 Law	3,114,357	0.08	3,588,689	0.12
33 Mayor's Office	-	0.00	-	0.00
36 Planning and Development	88,754,611	2.38	75,021,992	2.42
37 Police	89,171,194	2.39	90,291,276	2.91
38 Public Lighting	64,958,300	1.74	61,719,200	1.99
39 Recreation	9,386,927	0.25	11,325,533	0.36
40 Senior Citizens	400,000	0.01	1,238,273	0.04
44 Zoological Institute	13,116,530	0.35	11,494,047	0.37
45 Department of Administrative Hearings(E)	562,330	0.02	-	0.00
46 Detroit Office of Homeland Security(E)	-	0.00	-	0.00
<b>TOTAL EXECUTIVE AGENCIES</b>	<b>\$ 589,259,313</b>	<b>15.78%</b>	<b>\$ 604,931,092</b>	<b>19.48%</b>
<b>LEGISLATIVE AGENCIES:</b>				
50 Auditor General	\$ 240,000	0.01%	\$ 200,000	0.01%
51 Zoning	120,000	0.00	120,000	0.00
52 City Council	27,175	0.00	1,803,175	0.06
53 Ombudsperson	-	0.00	-	0.00
70 City Clerk	-	0.00	-	0.00
71 Department of Elections	197,555	0.01	1,131,660	0.04
<b>TOTAL LEGISLATIVE AGENCIES</b>	<b>\$ 584,730</b>	<b>0.02%</b>	<b>\$ 3,254,835</b>	<b>0.10%</b>

**ESTIMATED REVENUES BY AGENCY**  
**2004-2005 MAYOR'S BUDGET / 2003-2004 BUDGET**

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AGENCY	2004-2005 Mayor's Budget		2003-2004 Budget	
	Amount	Percent of Total	Amount	Percent of Total
<b>JUDICIAL AGENCY:</b>				
60 36th District Court	\$ 21,752,339	0.58%	\$ 19,488,516	0.63%
<b>OTHER AGENCIES:</b>				
35 Non-Departmental	\$ 1,313,773,872	35.18%	\$ 1,247,029,080	40.16%
<b>TOTAL GENERAL CITY AGENCIES</b>	\$ 1,925,370,254	51.56%	\$ 1,874,703,523	60.37%
18 Debt Service Fund	\$ 70,599,475	1.89%	\$ 67,125,114	2.16%
<b>ENTERPRISE AGENCIES:</b>				
(TAX SUPPORTED)				
10 Airport	\$ 5,663,466	0.15%	\$ 4,379,837	0.14%
13 Buildings and Safety Engineering	37,097,900	0.99	34,540,856	1.11
20 Transportation	171,169,345	4.58	174,312,014	5.61
72 Library	43,189,441	1.16	38,140,465	1.23
<b>TOTAL TAX SUPPORTED ENTERPRISE AGENCIES</b>	\$ 257,120,152	6.88%	\$ 251,373,172	8.09%
<b>TOTAL TAX SUPPORTED AGENCIES</b>	\$ 2,253,089,881	60.33%	\$ 2,193,201,809	70.63%
<b>ENTERPRISE AGENCIES:</b>				
(NONTAX SUPPORTED)				
27 Housing (F)	\$ -	0.00%	\$ 86,227,617	2.78%
34 Municipal Parking	50,333,701	1.35	52,071,194	1.68
41 D.W.S.D. - Water Supply	700,721,800	18.76	289,595,200	9.33
42 D.W.S.D. - Sewerage Disposal	730,409,600	19.56	484,218,799	15.59
<b>TOTAL NONTAX SUPPORTED ENTERPRISE AGENCIES</b>	\$ 1,481,465,101	39.67%	\$ 912,112,810	29.37%
<b>GRAND TOTAL - ALL AGENCIES</b>	<b>\$ 3,734,554,982</b>	<b>100.00%</b>	<b>\$ 3,105,314,619</b>	<b>100.00%</b>

- (A) The Consumer Affairs Department is eliminated in 2004-2005 Mayor's Proposed Budget, and the functions are transferred to other Agencies.
- (B) Previously was the Cultural Affairs Department. The name was changed in the 2004-2005 Mayor's Proposed Budget.
- (C) Previously was the Employment and Training Department. The name was changed in the 2004-2005 Mayor's Proposed Budget.
- (D) Previously was the Health Department. The name was changed in the 2004-2005 Mayor's Proposed Budget.
- (E) The Detroit Office of Homeland Security and the Department of Administrative Hearings are new agencies for 2004-2005.
- (F) The Housing Department is not included in the 2004-2005 Mayor's Proposed Budget, since the Mayor considers it an independent entity.